1994 ANNUAL REPORT

FOUNDERS
ENERGY LTD.

Corporate Profile

Founders Energy Ltd. is a growth oriented junior resource company engaged in the acquisition, exploration and development of oil and gas properties in Alberta and Saskatchewan. The Company's common shares are listed for trading on the Alberta Stock Exchange under the trading symbol "FDE".

Annual Meeting

The annual meeting of the shareholders of Founders Energy Ltd. will be held in the offices of the Company located at Suite 470, 800 - 6th Avenue S.W., Calgary, Alberta on Thursday, June 1, 1995 at 9:00 a.m.

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Report to the Shareholders

We are pleased to present the Company's first Annual Report and Audited Financial Statements for the year ended December 31, 1994.

Since closing Founders initial private placement of $740,000 in equity in December 1993, the Company has been actively pursuing oil and gas exploration, development and acquisition opportunities in selected geographic areas where management has technical and operational expertise. To date, we have focused our activities in Saskatchewan and central and southern Alberta. Our initial strategy is to achieve production and cash flow growth by finding and developing low cost reserves offering immediate cash flow potential and by pursuing quality producing property acquisitions with further development or optimization potential.

The Company's growth for 1994 was achieved entirely through exploration and development drilling activities. Several acquisition offers were made during the year, but due to the extremely competitive conditions the Company was unable to complete any of these acquisitions.

In November 1994, Founders completed the reverse takeover of Tarasol Ventures Inc. This transaction provided the Company with a listing on the Alberta Stock Exchange and an additional $375,000 of cash resources. On December 31, 1994, Founders and Tarasol were amalgamated, the Company's name was changed to Founders Energy Ltd. and the shares were consolidated on a two-for-one basis. Management viewed this transaction as essential in order to improve the Company's access to capital and to facilitate future growth.

Operations

During 1994, the Company participated in the drilling of eight wells, three of which were operated. The drilling program resulted in five successful oil wells and three dry and abandoned wells. In addition, the Company acquired 3,385 net acres of undeveloped land and shot or acquired 39 kilometres of seismic on internally generated prospects located in west central Saskatchewan and southern Alberta.

The 1994 capital program resulted in the addition of 170,000 net barrels of proven reserves and average daily production of 23 barrels per day of crude oil. At year end, proven reserves had a net present value of $1.1 million, discounted at 15 percent.

Gross production revenue was $137,387 for the year, for an average of $18.29 per barrel. Royalties, net of Alberta Royalty Tax Credit, averaged 23 percent of gross revenue. Operating costs averaged $5.94 per barrel, resulting in a netback of $8.13 per barrel for the year.

The Company's key producing properties are located in the Bellshill Lake area of east central Alberta and the Goodwater and Handsworth areas of southeast Saskatchewan. In the Bellshill Lake area, Founders has a 16.5 percent interest in one producing oil well and a 9.9 percent interest in a second producing oil well. Production from these two wells is currently averaging 140 (18 net) barrels per day. In Goodwater, the Company operates and has a 50 percent working interest in one oil well with current average production of 20 (10 net) barrels per day. In the Handsworth area, the Company has a 7.5 percent working interest in two producing oil wells currently averaging 75 (6 net) barrels per day.

The Company exited 1994 with net daily production of approximately 32 barrels per day and management expects production capability to increase to between 100 and 125 barrels of oil equivalent by the end of the second quarter of 1995, after completing capital programs in the Poundmaker, Bellshill Lake, Goodwater and Handsworth areas.

Exploration and Development

The following is a brief description of the Company's key exploration and development activities:

Bellshill Lake, Alberta

This area is located approximately 125 kilometres northeast of Red Deer. The Company holds a 9.9 percent working interest in 80 acres of land offsetting its two producing wells in the area. The primary zone is Basal Quartz and the Company expects to participate in drilling up to two additional infill wells prior to the end of 1995.

Poundmaker, Saskatchewan

The Company is operator and has an 80 percent working interest in this area located approximately 25 kilometres southeast of Lloydminster. To date, the Company has acquired 1,280 (1,024 net) acres of land in the area and shot 14 kilometres of proprietary seismic which has been used to confirm one drilling location. The primary zone is Colony gas and the Company plans to drill a well in the second quarter of 1995. If successful, the well can be tied into an existing facility which has excess capacity. In general, wells in this area have produced one to four bcf at rates of one to 2.5 mmcf per day. Depending on the results of the drilling program, the Company plans to drill other follow-up locations and will be pursuing several acquisition opportunities in the area.

Goodwater, Saskatchewan

The Company is the operator of a producing Frobisher oil well and holds 320 (131 net) acres of undeveloped land in this area, located 25 kilometres southeast of Weyburn. In the first quarter of 1995 the Company plans to complete its existing well in the primary Midale Marly zone and, pending the results, may pursue further drilling opportunities in the area.

Handsworth, Saskatchewan

The Handsworth area is located northeast of Weyburn and the Company has a 7.5 percent working interest in two producing oil wells that were drilled in December 1994. An additional follow-up location has been identified in the area and the operator plans to drill this location in the first half of 1995.

Aden, Alberta

During 1994, the Company purchased existing trade seismic and completed a 25 kilometre proprietary seismic program on this Sunburst prospect located near the Canada-United States border in southern Alberta. Based on the encouraging results of the seismic program, the Company acquired 1,920 (960 net) acres of land in the area. The Company farmed out its interest in a test well that was drilled and abandoned in December 1994. Although the first test well was abandoned, the Company continues to be encouraged by the prospect and plans to either farm-out or drill an additional well in 1995. The Company has a 50 percent working interest in the area.

1995 Objectives and Strategy

Management has developed a strategy for 1995 that is focused on adding shareholder value by achieving significant growth in reserves, production and cash flow, through a balanced program of exploration and acquisition. Our strategy consists of the following key elements:

- Exploring for and developing high quality, low risk, low cost oil and gas reserves within defined geographic areas where management has technical expertise and where cash flow is readily achievable.

- Maintaining high working interests and pursuing operatorship, wherever possible, in order to retain operational and technical control.

- Committing funds to acquiring quality undeveloped acreage, within existing areas of operation or on internally generated exploration prospects, in order to facilitate future growth through exploration.

- Pursuing and acquiring one or more quality producing properties where future development or optimization potential exists.

- Financing future growth through a combination of debt and equity, where debt is limited to a reasonable and manageable level. Debt levels may fluctuate as funds are required and may be dependent on the availability of other sources of financing. However, in the long term, we believe that debt should not exceed two times annual cash flow.

Outlook

Management believes that 1995 will be a year of opportunity for the Company. Several companies are undertaking, or have announced, asset rationalization programs for 1995 and as a result, there are currently a large number of quality assets being offered for sale. The cooling off of the equity markets in late 1994, combined with the significant decrease in natural gas prices, have forced many companies to deal with the negative impact that these factors have had on their share prices, asset values and cash flows. In our view, these economic conditions have helped to create an environment where the Company can pursue and acquire quality land and assets at attractive prices and with significantly reduced competition.

We are committed to adding low cost oil and gas reserves through a balanced program of exploration and acquisition. In order to ensure that we achieve our production and cash flow targets, we intend to remain flexible with respect to pursuing both oil and gas reserves. We believe that this balanced approach offers the most potential for significant shareholder returns.

In November 1994, we were pleased to add Messers Byron J. Seaman, Stephen D. Adams and Mike H. Shaikh to the Board of Directors. Their extensive industry, management and public company experience will serve to strengthen our foundation and provide a strong vision for the future growth of the Company.

On behalf of the Board of Directors we would like to thank our shareholders for your continued support.

March 24, 1995

Thomas W. Buchanan
President and
Chief Executive Officer

Kelly D. Cowan
Vice President

Consolidated Balance Sheets

As at December 31

	1994	1993
ASSETS		
Current		
Cash	$ 411,036	$ 142,038
Accounts receivable	53,404	30,143
Share subscriptions	–	590,000
Prepaids	–	1,015
	464,440	763,196
Property, plant and equipment [note 3]	951,148	101,656
	$ 1,415,588	$ 864,852
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 354,416	$ 124,852
Shareholders' equity		
Share capital [note 4]	1,115,583	740,000
Deficit	(54,411)	–
	1,061,172	740,000
	$ 1,415,588	$ 864,852

On behalf of the Board:

Director

Director

See accompanying notes

Consolidated Statement of Loss and Deficit

For the year ended December 31, 1994

Revenue	
Oil sales	$ 137,387
Less: royalties (net of ARTC)	(22,384)
	115,003
Other income	15,393
	130,396
Expenses	
Production	44,088
General and administrative	99,215
Depletion and depreciation	41,504
	184,807
Loss for the year and deficit, end of the year	$ (54,411)
Loss per common share [note 5]	$ (0.01)

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1994

Cash provided by operating activities	
Loss for the year	$ (54,411)
Add non-cash item	
Depletion and depreciation	41,504
Cash deficiency from operating activities	(12,907)
Net change in non-cash working capital	207,318
	194,411
Cash used in investing activities	
Property, plant and equipment	(890,996)
Cash provided by financing activities	
Share subscriptions	590,000
Issue of common shares	375,583
	965,583
Increase in cash	268,998
Cash, beginning of year	142,038
Cash, end of year	$ 411,036

See accompanying notes

December 31, 1994

1. Basis of presentation

(a) At the Annual and Special General Meeting held on November 23, 1994, the shareholders of Tarasol Ventures Inc. ("Tarasol") approved a reverse takeover of the Company by Founders Energy Ltd. ("Founders"), the change of name from Tarasol to Founders and the consolidation of the Common Shares of the Company on the basis of one share for every two shares previously held. - see Note 1(b).

Prior to the reverse takeover, Tarasol was a junior capital pool on the Alberta Stock Exchange and the reverse takeover by Founders constitutes its major transaction within the meaning of Alberta Securities Commission Policy No. 4.11 and Circular No. 7 of the Alberta Stock Exchange.

The following information is provided to assist readers in understanding the basis of presentation of the consolidated financial statements:

(i) The consolidated balance sheets of the Corporation at December 31, 1994 and 1993 and the related statement of loss and deficit and changes in financial position for the year then ended include the assets, liabilities and results of operations of Founders for the period January 1, 1994 through November 22, 1994 and the combined assets, liabilities and results of operations of Founders and Tarasol from November 23, 1994, the effective date of the transaction, following the application of reverse takeover accounting principals using the purchase method of accounting.

(ii) The comparative December 31, 1993 balance sheet is that of Founders. The Corporation raised $740,000 through a private placement and spent $101,656 on property, plant and equipment. A statement of changes in financial position for the period September 17, 1993 (incorporation date of Founders) to December 31, 1993 is not provided as it would not offer any additional information

(iii) The initial production of Founders did not occur until March, 1994 and therefore the statement of loss only reflects operations for a ten month period. No statement of operations is provided in the prior period as the Corporation was in the pre-production stage.

(b) Effective November 23, 1994, Tarasol acquired all of the issued and outstanding shares of Founders by way of the issuance of 11,580,000 Common Shares of Tarasol. As a result of the transaction, the original Founders shareholders owned approximately 62.3 percent of the issued and outstanding common shares of the Company. Reverse takeover accounting principals have been applied by the Corporation to record this acquisition using the purchase method of accounting. Accordingly the combined entity is considered to be a continuation of Founders with the assets of Tarasol deemed to have been acquired by Founders, effective November 23, 1994 at their fair market value of $372,983.

The net assets acquired are summarized as follows:

Current assets, including cash of $379,062	$ 387,282
Current liabilities assumed	14,299
Net assets acquired	$ 372,983

2. Significant accounting policies

Property, plant and equipment

a) Principles of consolidation

The consolidated financial statements of the Corporation are stated in Canadian dollars and have been prepared in accordance with generally accepted accounting principles accepted in Canada. The consolidated financial statements include the accounts of the Corporation together with its wholly owned subsidiary.

b) Joint venture operations

Substantially all of the exploration, development and production activities of the Corporation are conducted jointly with others. The financial statements reflect only the Corporation's proportionate interest in such activities.

c) Property, plant and equipment

Oil and gas

The Corporation follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such amounts include land acquisition costs, geological and geophysical costs, carrying costs of non-productive properties, costs of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs. These amounts are accumulated in separate cost centers for each country.

Unimpaired costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proved.

The provision for depletion and depreciation is determined using the unit-of-production method based on the Corporation's share of gross proven reserves of oil and gas. Reserves and production of gas and associated liquids are converted into equivalent barrels of oil based on relative energy content.

Gains or losses on the disposition of oil and gas properties are not recognized in the statement of earnings unless the depletion and depreciation rate would be changed by 20% or more.

Oil and gas properties are subject to a ceiling test under which their carrying value, net of deferred income taxes and accumulated provision for site reclamation and abandonment costs, is limited to the undiscounted future net revenue from production of estimated proven oil and gas reserves, based on year end commodity prices, plus the unimpaired costs of unproved properties less estimated future administration, interest, site reclamation and abandonment costs and income taxes.

Site restoration and reclamation

The provision for estimated site reclamation and abandonment costs is determined using the unit-of-production method. The provision is included in depletion and depreciation expense.

Office equipment

Office equipment is recorded at cost and depreciated using the straight-line basis at the following rates:

Computer hardware and software	33%
Office equipment	20%

3. Property, plant and equipment

	Cost	Dec. 31, 1994 Accumulated depletion and depreciation	Net book value	Dec. 31, 1993 Cost and Net book value
Oil and gas properties	$ 943,817	$ 32,936	$ 910,881	$ 100,227
Office equipment	48,835	8,568	40,267	1,429
	$ 992,652	$ 41,504	$ 951,148	$ 101,656

The Corporation has capitalized general and administrative costs for the year ended December 31, 1994 totaling $104,120 (1993 - $5,951).

Costs associated with unproved properties excluded from costs subject to depletion for the year ended December 31, 1994 amounted to $280,823.

4. Share capital

(a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series

(b) Issued

	Number of shares	Consideration
Common shares outstanding at December 31, 1993	7,000,000	$ 740,000
Shares issued to acquire Founders Energy Ltd.	11,580,000	372,983
Issued for services rendered	26,000	2,600
Share consolidation, effective December 31, 1994	(9,303,000)	–
Common shares outstanding at December 31, 1994	9,303,000	$1,115,583

Pursuant to the "reverse take-over" method of accounting as referred to in Note 1(a), common share amounts include the share capital balances of Founders to the date of acquisition, together with changes in the consolidated share capital since that date. The number of shares issued and outstanding are those of Tarasol. The weighted average number of shares outstanding during the year, as referenced in Note 5, have been calculated to give retroactive effect to the 2 for 1 consolidation of the common shares of the Corporation to November 23, 1994.

(b) Employee incentive stock option plan

The Corporation has an Employee Incentive Stock Option Plan (Plan) which is administered by the Board of Directors of the Corporation. All full time employees, officers and all directors of the Corporation are eligible to participate in the Plan. Under the terms of the Plan, the Corporation has reserved an amount equal to ten percent of the issued and outstanding shares of the Corporation for stock options.

At December 31, 1994, the Corporation had a total 900,000 outstanding stock options exerciseable at a price of $0.30 per common share expiring on November 23, 1999.

(c) Underwriters' share purchase option

Pursuant to a stock option agreement dated February 25, 1994, the Corporation has granted Rogers & Partners Securities Inc. an option to acquire 175,000 common shares of the Corporation at $0.20 per share, expiring September 8, 1995.

5. Loss per common share

Loss per common share is $0.01 and is calculated based on the weighted average number of common shares outstanding during the period of 7,246,074.

The are no factors that would have a significant dilutive effect on the loss per common share.

6. Income Taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial corporate income tax rate of 44.34 percent as follows:

	1994
Expected Income tax recovery	$ (24,126)
Increase (decrease) resulting from:	
Non-deductible crown charges	6,638
Alberta Royalty Tax Credit	(4,128)
Other	1,199
Tax benefit not recognized on current year losses	20,417
	$ –

At December 31, 1994 the Corporation had approximately $67,000 of tax deductions available in excess of book deductions of which the benefit of $30,000 has not been recorded.

7. Commitments

The Corporation is committed under an operating lease in respect of the space occupied by its head office. The lease expires on May 31, 1999 and requires annual rental payments over the next five years as follows (includes base rent and estimated operating costs):

1995	$20,240
1996	$21,310
1997	$22,080
1998	$23,150
1999	$ 9,960

AUDITORS' REPORT

TO THE SHAREHOLDERS OF FOUNDERS ENERGY LTD.

We have audited the consolidated balance sheets of Founders Energy Ltd. as at December 31, 1994 and 1993 and the consolidated statement of loss and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

Calgary, Canada
March 3, 1995

Corporate Information

Directors

Stephen D. Adams
Chairman of the Board
Calgary, Alberta

Thomas W. Buchanan
Calgary, Alberta

Kelly D. Cowan
Calgary, Alberta

Byron J. Seaman
Calgary, Alberta

Mike H. Shaikh
Calgary, Alberta

Officers and Key Personnel

Thomas W. Buchanan
President and Chief Executive Officer

Kelly D. Cowan
Vice President

David I. Holm
Corporate Secretary

Mark T. Oliver
Consulting Geologist

Transfer Agent and Registrar

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Calgary, Alberta T2P 1E7

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

Auditors

Price Waterhouse
Calgary, Alberta

Legal Counsel

MacKimmie Matthews
Calgary, Alberta

Stock Exchange

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